

Proposed Rent Control Discussion / Ordinance

Bullet Points

- **Comments About Rent Control**

- Economist, Gunnar Myrdal, stated, “Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision.” His fellow Swedish economist (and socialist) Assar Lindbeck asserted, “In many cases rent control appears to be the most efficient technique presently known to destroy a city—**except for bombing.**”
- The grinding, anti-poor, primitive socialism that is rent control would be a catastrophe for the urban poor. Everybody should recognize this. No less than the Foreign Minister of the Socialist Republic of Vietnam spoke about rent controls in 1989: Mr. Thach admitted that controls ... had artificially encouraged demand and discouraged supply.... House rents had ... been kept low ... so all the houses in Hanoi had fallen into disrepair, said Mr. Thach. Further, Mr. Thach stated: "The Americans couldn't destroy Hanoi, but we have destroyed our city by very low rents. We realized it was stupid and that we must change policy."
- Rent control is a law or set of laws that sets rent levels or controls the amount and frequency of rent increases through regulation. From their introduction in Europe after World War I, where rents were frozen at certain levels, to second generation rent control laws enacted in the United States in the 1970s, where rents are allowed to increase at certain rate or by reference to external factors such as inflation, rent control is one of the most studied issues in economics.
- Some believe that housing is a human right, and that we are facing a housing crisis that will impoverish a generation if we do not act quickly and aggressively. We can support nearly any policy that would increase access to affordable housing, reduce the number of rent-burdened households, and reduce or eliminate displacement. But we are desperately opposed to rent control.
 - Rent control laws do not work to make housing affordable for everyone. In the long run, everyone is worse off under rent control, because rent control is a cruel bargain; stability and subsidies for some renters in exchange for the exclusion and exploitation of others.
- One effect of government oversight is to retard investment in residential rental units. Imagine that you have five million dollars to invest and can place the funds in any industry you wish. In most businesses, governments will place only limited controls and taxes on your enterprise. But if you entrust your money to rental housing, you must pass one additional hurdle: the rent-control authority, with its hearings, red tape, and rent ceilings. Under these conditions is it any wonder that you are less likely to build or purchase rental housing?
- Each of Santa Monica, Los Angeles and West Hollywood, which have for years had very strict rent controls in place, have on average experienced overall rent increases between 2% to 4% per year. This is in line with Culver City in the years following the start of the Expo Line. During 2019 in each of these 3 cities, rents have stabilized below 2% increases.
- Rent control is one of the first policies that students traditionally learn about in undergraduate economics classes. The idea is to get young people thinking about how policies intended to help the poor can backfire and hurt them instead. According to the basic theory of supply and demand, rent control causes housing shortages that reduce the number of low-income people who can

live in a city. Even worse, rent control will tend to raise demand for housing — and therefore, rents — in other areas.

- Rent control, the Econ 101 student learns, helps a few people, but overall does more harm than good.
 - Rent control is an ineffective manner to address housing affordability as it leads to decreased returns for apartment owners and developers and ultimately leads to a decline in new construction, thus further exacerbating as opposed to ameliorating the affordability equation.
 - Rent control blocks the workings of a market and discourages developers from developing more housing, particularly affordable housing.
 - Rent control is a knee-jerk response to affordable housing and homelessness. Increases in apartment rents has led to numerous rent control conversations, ballot initiatives and legislation (both enacted and proposed). Despite the failure of Proposition 10 in California in 2018 the California legislature and many local jurisdictions, like Culver City, have proposed rent control.
 - Although rent control may sound like a panacea to tenants, it creates artificial constraints to rent growth, expense recovery and new development. Ultimately, rent control will lead to decreased investment in existing structures, less development and fewer available rent units.
 - Basic economic theory tells us that when supply is reduced prices rise.
 - Studies have shown that the City of Los Angeles loses 5 ½ rent units per day due to owners exiting the business and converting their buildings to condominiums or other uses.
 - In San Francisco, that City has lost 13% of its rental units since enacting rent control.
 - Remember the severe gas shortages in the 1970's when the Federal Government attempted to control gas prices. Rent controls are the same as price controls.
 - Rent controls and related regulations harm property values, which reduce a City's property tax base.
 - Renters in rent-controlled units are not motivated to move:
 - Even when their children move out and their units are then much larger than needed — this eliminates available units for the next family that needs housing.
 - Even when they have a better job opportunity, renters either do not accept the job rather than give up their rent-controlled unit or drive long distances to get to work.
 - Renters in rent-controlled units are not motivated to purchase property of their own, which has traditionally been an avenue to gain wealth.
 - If rental housing providers are not permitted to have rents reflect these costs, there is increased risk of declining investment and quality of rent controlled units in Culver City.
- ***Negative Side Effects of Rent Control:***
 - The findings in Beacon Economics, which reviewed existing literature, as well as its own analysis of the available data, demonstrates that rent control policies are not an effective way to deal with unaffordable housing. What's more, rent control policies can have negative consequences for low-income households due to higher growth in rents for units not covered by such policies. In other words, rent control policies can protect some people at the expense of others since residents who do not live in rent-controlled properties face higher rents as well.
 - Rent control laws do not accomplish their goals of increasing providing affordable housing for low-income residents or reducing homelessness. At worst, rent control laws move cities further

away from these goals by making low-income residents in cities with rent control laws worse off or leading them to move elsewhere.

- In San Jose, for example, 57.1% of low-income households did not live in rent-controlled housing (pre-1980 structures with three units or more) in 2013, which leaves them vulnerable to higher rent growth in housing that is exempt from rent control policies.
- Despite the very good intentions behind rent control laws, they attack the symptom of the underlying malady and do little to address the root cause of the state's affordability challenge: the inherent undersupply of housing, which leads to high rents in California's cities. Simply put, rents are too high because multi-family housing and the state's housing stock have failed to expand commensurately with the ever-growing population. The solution to this affordability problem is to expand the apartment stock in these cities, not introduce price ceilings or other regulations.
- Not all renters have benefitted equally under rent control. The policy created a powerful incentive for landlords either to convert rental units into condominiums or to demolish old buildings and build new ones. Either course forced existing tenants — especially younger renters — to move.
- Rent control laws come with problems of their own. Economists sometimes refer to “negative externalities,” which are the unintended consequences of a particular public policy. The evidence suggests that local rent control ordinances are accompanied by such externalities. What's more, rent control ordinances can exacerbate problems they are intended to address.
 - First, price ceilings encourage individuals who would otherwise move elsewhere to stay in their apartments.
 - The data suggests that this is particularly true of higher-income households who have a propensity to move less frequently.
 - In cities like Santa Monica or San Francisco, where rents are very high, this means that wealthier individuals, who might otherwise move to more expensive housing, stay in their lower-cost apartments. This restricts the available supply of local affordable housing.

- **Effects of Rent Control:**

- **Rent Control Reduces the Supply of Housing** - Rent control incentivizes landlords to convert property away from rental housing (because they aren't making as much money under rent control) either by making the units condos or by moving into the units themselves. In San Francisco, the cumulative effect of the imposition of rent control in 1994 was to reduce the supply of available rental housing by 15%, reduce the number of renters in buildings subject to rent control under the 1994 law by 20%, and reduce the number of renters in all rent controlled buildings by 30%. Rent control is an effective strategy if your goal is to reduce rental housing and drive renters out of a city, but it's far more pro-renter to encourage an abundance of rental housing.
- **Rent Control Helps Higher Income Renters** - If landlords don't want to convert the property away from rental status but do still want to increase their incomes from the properties, they often can evade rent control requirements by renovating the properties. Because many rent control policies exclude new developments or redeveloped properties (to mitigate the supply-restricting effects of rent control) landlords can increase their income by renovating properties

and then raising rents. Along with condo conversions and increased owner occupancy these renovations increased the housing available for higher income individuals at the expense of lower income individuals, especially in pricier neighborhoods. The shorter version: rent control gentrifies, the opposite effect many rent control advocates hope for in pushing rent control.

- ***Incumbent Renters in Rent Controlled Units Receive Monetary Benefits in the Form of Extortion Payments*** - Those lucky enough to get a rent-controlled unit receive large benefits from the protections. In San Francisco, those in rent-controlled units received between \$2,300 and \$6,600 a year in benefits between 1995 and 2012, including protections against rent increases, direct transfers from landlords, and lower moving costs. Overall, the benefits of rent control to incumbent renters was \$7.1 billion.
- ***Renters in Uncontrolled Units Pay Higher Rents*** - As rent control decreases housing supply it increases rents. The recent study from San Francisco shows that the six percent decrease in the supply of available rental housing increased rents in the uncontrolled sector by seven percent. From 1994 to 2012, the cumulative loss to renters attributable to increased rents under rent control was \$5.1 billion. (Note that this is the loss only to increased rents; increased commuting costs, housing mismatch, the cost to renters not able to move to the city, reduced productivity, etc., are not included in this calculation). This shows that the benefits of rent control for the lucky renters are offset by losses to other renters who aren't so lucky.
- ***Rental Units are Mismatched to the Needs of Renters*** - In college I lived in a one bedroom apartment with three roommates, in law school a two bedroom apartment with one roommate, and now I live in the upper unit of a duplex apartment with my wife and two dogs. Each of the places I lived was perfect for me at the time, but each was unsuited for my next stage in life. Looking forward to if and when my wife and I decide to have kids, when we decide to retire, and when we may need assisted living, the homes I imagine us in change based on our needs. All of our housing needs change over time, but your choices are circumscribed under rent control. Because rent control increases rents in the uncontrolled sector, those in rent-controlled units are less likely to move. Because rent-controlled units are unlikely to come on the market, those in the open market have reduced options. All this adds up to housing misallocation: people staying in housing they otherwise wouldn't because of rent control, even if it means longer commutes or overcrowding. Longer commutes have clear effects on carbon emissions, and space mismatch is a non-monetary cost to rent control for those subject to it.
- ***Rent Control Does Not Effectively Target and Help Those Renters that Need Help*** - Ideally, rent controlled units would go to the rent-burdened or those who would otherwise be priced out of the market. However, the beneficiaries of rent control are very likely to be wealthier households; in Massachusetts, 30% of rent controlled units were occupied by those in the top half of the income distribution. In weighing the costs and benefits of rent control this windfall for wealthier households counts as a clear cost. How would you feel if 30% of Section 8 vouchers were going to those in the top half of the income distribution? (Now imagine the higher income households getting Section 8 vouchers were being funded by low income renters unlucky enough not to win the housing lottery). Unlike Section 8, which can impose income limits, rent control runs into practical problems with targeting the right beneficiaries. If landlords are allowed to charge those with higher incomes market rates then landlords will prefer to rent to those with higher incomes, and low-income renters will always be last in line for housing. If landlords are required to rent

to those with lower incomes first, then they will be aggressive in finding a cause to evict tenants. Imposing rent control means assistance for some renters at the expense of everyone else, with no guarantee that those receiving assistance are those who need it most. Worse, of those receiving rent-controlled units, similarly situated renters do not receive similar benefits. White renters receive larger benefits than similarly situated people of color, and married renters receive larger benefits than similarly situated single renters. Rent control may be an anti-racial equity policy.

- **Conclusion** - In the end, rent control succeeds, to the extent that it does, by raising costs for many renters to benefit a random assortment of other renters. Overall, the costs of rent control exceed the few benefits. It's an affordable housing lottery where the ticket is the certainty that if you don't win, your rent will go up. Renters deserve better.

- **Certain Rent Control Studies: Rental Market Impacts of Rent Control:**

- According to economic theory, a price ceiling should lead to a substantial increase in demand for rentals, as consumers seek out rentals that are fixed at below market rate. In addition, the prices of rentals that are exempted from rent control should rise, as consumers fill up rent-controlled units, making rent control-exempt units scarcer. Empirical studies demonstrate that very impact.
- A 1993 study by St. John & Associates examined the impact of rent control on the rental stock in the Cities of Berkeley and Santa Monica a decade after rent control policies were enacted.³ The study used U.S. Census data from 1980 and 1990 to compare rental stock in the two focus cities against stock in similarly sized California cities. The analysis found that while none of the comparison cities lost housing stock during the 10-year window, Berkeley's rental stock fell 14% while Santa Monica's rental stock fell 8%. Rent control laws in these cities created a tight and shrinking rental market as demand outpaced supply.
- A 1999 study in the Journal of Housing Research claims that this effect might perpetuate itself over time, even in the face of laws that prohibit new construction from being subject to rent control laws.⁴ Using data from the American Housing Survey from 1984 to 1996, the study showed that rent controls not only increase the price of housing that is not under rent control laws, but also new construction that is exempted from rent controls may appreciate in price very quickly because rent controls discourage growth in new rental construction. Investors fear that rent controls may eventually apply to new units, and thus the investors are discouraged from supporting new construction. A tight supply of rentals becomes exacerbated in the present due to concerns about rent control policy that may be enacted in the future.